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| | INSURANCE COVERAGE |) | |

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GROUP 3600

DECLARATION OF SANDRA CALLAHAN

1. My name is Sandra Callahan. I am 43 years of age and reside in Elkhorn, Nebraska. I am listed as an inventor on the above-referenced patent application. I have been in the Group Insurance business on the Operations side in my 25-year career. I am currently Senior Vice President, Client Loyalty Operations for Jefferson Pilot Financials employee benefits division, Benefit Partners. My responsibilities include serving on the executive management team, leading JPF in the strategic development of system initiatives related to the processing and servicing of Group and Work Site benefit products. My direct responsibilities include Client Management, Customer Service, Premium, Billing, Enrollment, Compliance, Business Systems Management and Development and Claims/Risk Management.

2. My career began in May of 1979. I was hired for the summer to open mail for the dental claims department at Mutual of Omaha before going off to college in the fall. I was familiar with dental claims and dental terminology, as I had worked the prior summer at a dentist office. Opening mail kept me busy for only a few hours a day. I was bored and being paid for 8 hours work so I would go ask dental auditors if I could help them process claims. In a very short period of time I was promoted to auditor. I did well and had several promotions very quickly. Within a year I was asked to join a system project team (representing business knowledge) to automate dental claims on to the computer system. The knowledge I gained on that project at 18 years old has been instrumental in my career since. Automating processes, eliminating touches came easy to me over the years with my business background and exposure to IT at such an early point in my career. After completing the project and automating dental claims processing I went back to the business unit as

the supervisor to convert all the business, training, processes and procedures onto the computer.

3. Over the years I moved up the career ladder, one job at a time, through the division. In addition to job promotions and experience I was asked to participate in numerous business/IT projects through the 80's. I was asked to move to Washington, D.C. and manage the business for the American Foreign Services, Rural Letter Carrier Association, Postal Carrier Association and the Alliance Association. I worked directly with the government Office of Personnel Management (OPM) and the CIA. My relationship with the CIA included building, managing and directing the Claims processing and servicing of medical claims for the agents and their families. From there I was asked to move to Minneapolis, Mn. and start up an operation.

4. After a few years I was promoted to Second Vice President and Director and moved back to Omaha at the age of 30 to run all the Claims Processing and Service Centers for Mutual of Omaha. Providing quality and timely service, managing expenses and finding talent were always the concerns in running this 1200 employee+ operation servicing many Fortune 500 companies.

5. On a daily basis I would think back to all my prior jobs and recall how easy this business could be if everyone in the process would "share" their information automatically, eliminate touches that add no value and eliminate time that adds no value. Since I started my career in the clerical, auditor role I remember how angry customers, brokers and sales representatives would always be at me. My thoughts back then were, "If I only knew what the employee, employer, broker, sales representative, underwriter, policy issuer, premium rep, enrollment rep, billing rep knew, then I could pay every claim timely and accurately, no one would yell at me, my company would make money and the employee and employer would benefit by receiving great service and stable rates. The broker and sales representatives would win by selling more business instead of being buried in service issues. Everyone Benefits!" These thoughts became the foundation of a new infrastructure I had the opportunity to build: Centralizing information to share across the business enterprise at the time the information is needed would save time and money and provide great service.

6. In 1995 Guarantee Mutual began calling. I had no interest in a small little company like Guarantee at the time. However, after several conversations my interest grew. Guarantee was a new entrant in the group ancillary insurance market, successful in sales and failing in service.

Since I'm a service person and a builder I continued to listen. Guarantee Mutual had an interesting problem in this day and age. Basically, they had no infrastructure from my perspective. I accepted a challenge and joined Guarantee Mutual in October of 1995.

7. It was very clear to me where we should start in the building of our infrastructure, at the beginning of the process. Starting at the beginning would allow us to share all data across the enterprise when complete, thus eliminating time, rework, error and expense.

8. Our challenges during this time of building were many. We were building an entity within a 100 year old Company and Industry. We had significant challenges internally as well as externally. Internally we were building a new entity supported by traditional product lines. Divisions generating profits were funding our division of growth. Competition for resources, IT and people were fierce. We were at the same time shifting our company culture and transforming from an old Mutual culture to a Public Company. Externally our credibility was challenged.

9. From 1996 to the present we have been re-engineering and transforming our infrastructure. We embraced a commitment to a technology strategy culturally and financially. During the early days, service was a dirty word. Quotes took an average of 5-6 weeks. To issue a policy when a case was sold took an average of 82 workdays. The dental claims backlogs ran 6 months. Phone calls came in and were transferred all over the building. A new product entity failed. We lost millions of dollars. We almost lost our distribution system during this time. Retention of our in force block of business was dropping, clients were terminating. Any transaction with our company took days, weeks and months like many of our competitors.

10. We built the quote engine first. Approximately 70% of our business would price and issue a proposal in real time without the need of an underwriter. These statistics are true today. The information you need to quote a piece of business is the same information you need to issue a policy. Once we built the quote engine, everything past that point in the process would be housed or contained in a centralized data base. This eliminates redundant functions, actually eliminates many functions and reduces errors and costly rework. Our infrastructure was built without dependence on outdated legacy systems, and so we were able to supplant the traditional "silo" culture with an integrated database supporting all facets of the business. All the information would live in one area and different processes and systems could pull whatever they needed from this centralized source. We built the capabilities to feed the

data from quote to issue. We built the ability to issue a policy, send the first bill, feed premium, billing and enrollment. We built the ability to prepopulate the claims pricing shells to automatically pay claims according to the policy. Data comes in once and we spread it across the enterprise regardless of departmental process or business silo. We do this without manual intervention or employees forcing the processes. The concept from the backend claims perspective of "If I only knew what the employee, employer, broker, sales representative, underwriter, policy issuer, premium rep, enrollment rep, billing rep knew, then I could pay every claim timely and accurately, know one would yell at me, my company would make money and the employee and employer would benefit by receiving great service and stable rates. The broker and sales representatives would win by selling more business instead of being buried in service issues. Everyone Benefits!" became a reality by 1999 with our building.

11. It was during this period that my partner Bill Hanby joined our team. We migrated all of our existing clients to our new platform and continued enhancing and leveraging the foundation. With our centralized data base and all policies housed in our new platform, we were able to expand our model. Importantly, we automated renewals of all policies by leveraging our front end quote engine with the policy claims experience, pricing demographics, premium experience, commission loads (all housed or accumulated through our centralized data base concept). Renewal pricing and correspondence goes out today without an underwriter or people intervention. We do however have the choice of manually handling renewals by data mining the type of cases with certain demographics that we choose to "touch".

12. Renewals are particularly important in the group insurance business, since policies typically only have a relatively short term and come up for renewal at least once a year. Accordingly, while it is important to achieve a high renewal rate in order to maintain much less build a business base, the constant need to be renewing policies can be a huge administrative burden compared, for instance, to forms of life insurance policies which do not require frequent renewal. Accordingly, this automation we have developed is critical to the success of our group insurance lines because using it we have increased the renewal rate and we have also reduced the paperwork and administrative burden of effecting all the renewals.

13. By 2001 we completely Web-a-tized our processes to real time interact with any customer with any process, sharing across the enterprise. Our definition of enterprise includes quoting from any sales office in the

United States where we do business, including issuing policies, sending bills, enrolling business, cash management, claims processing, renewing business, actuarial pricing and risk management, and customer service, real time regardless of what customer (employer, employee, broker, sales rep) and regardless of how the customer is interacting with us (paper, web, phone, IVR, EDI, etc.). The centralization of all our processes/data through our centralized data base enables our entire business enterprise to manage customer relationships. Our definition of business enterprise includes external customers, vendors and business associates.

14. The success of our automation developments has been significant. With this model, not only do we reduce fixed expenses as we grow, but also variable expenses continue to decline. Expenses have dropped year over year even during the building years and continues. Expenses since 2000 are 12.3% for 2000, 9.4% in 2001, 8.6% in 2002 and 8.1% in 2003. Most enhancements have less than a 2-year payback for return on the investment. We participated in a non-public industry profit study sponsored by a leading industry professional organization. This outside study with 27 carriers, including 9 of the top 10 sellers of disability, have proven that we have a minimum advantage of 20 -25% G&A expense over our competitors. Persistency of our business has enhanced. Customers who utilize our full model (including the web) have a 5-6% higher persistency rate than non-web users according to our 2003 statistics.

15. ~~LOMA (an outside research association) has benchmarked our~~ service satisfaction levels for several years. Since our rollout of our infrastructure employer and broker satisfaction levels have climbed from satisfied to loyal up into the highest category of delight satisfaction levels. We have consistently delivered superior bottom line financial results because our business model has no duplicate legacy systems, reduction of rework and errors and enhanced service due to data sharing across the enterprise real time. Our risk management is consistent due to the automation of pricing and renewing of our business automatically. From quoting, to issue, to claims payment, to renewal of our business, all information centralized gives you the capability to achieve such results. Our model allows us to transact with our clients in sub seconds and minutes vs. the 100-year industry competitors who deal in days, weeks and months to service and risk manage their businesses. We are now among the industry leaders in profitability. Our ROE's (return on equity) were 14.8% in 2000, 17.8% in 2001, 16.4% in 2002 and completing 2003 with 14.4% results were negatively impacted by some unfavorable experience on a small block of medical policies in a run off mode. To fully understand our "superior cost structure", it's important to completely understand how our

Administrative and Sales processes are integrated and interlocked, thereby creating this advantage. Our technologically enabled administrative processes, from quoting the business to claims payment, have eliminated most manual and redundant operating steps. This enables enhanced financial monitoring. For example, in 2003, Short Term Disability profits produced a mid-teen ROE in a product line that the industry lost money in both 2001 and 2002 as reported in the JHA (outside firm) annual studies. In the same reports our Long Term Disability profits are roughly double the industry average.

16. Because this is group insurance which is highly dependent on maintaining a high renewal rate, all of the success mentioned above is dependent on the need and ability to leverage our automation to handle renewals as recited in the claims of the application which are being submitted in another paper that is filed in the Patent Office with this paper. I have no doubt that our infrastructure is the reason we have achieved our financial and service success in the ancillary benefits business, to which renewals are key.

17. This year we and our automation efforts mentioned above together with the consequent record of success mentioned above won a Service of Excellence award distributed by a software vendor (Genesys) for the Most Customer Focused Call Center Management.

18. I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by the fine or imprisonment, or both, under Section 1001 of Title 18 of the United States Code.


Sandra Callahan